California MEDICINE

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EDITORIAL

A C.M.A. Keogh Plan for Retirement Income

APPROVAL HAS NOW been given by the Council of the California Medical Association for its special committee to proceed with the development and offering of a retirement program based on the Keogh Law adopted earlier this year by the Congress.

Under this authorization the committee will develop a brochure to go to all C.M.A. members, outlining the details of the plan and inviting participation by all who are interested. These mailings will be made in ample time for members to take full advantage of the tax benefits provided for the full 1963 calendar year.

For review, the Keogh Law provides that self-employed persons may set aside up to 10 per cent of their net income, to a maximum of $2,500 a year, for retirement purposes and may deduct from their earned income, for tax purposes, one half of the amount set aside. At the same time, the person electing to take this tax deduction is required to make for his employees of three years or more a comparable retirement program, the cost of which is fully deductible by the taxpayer as a business expense. The percentage of earned income placed in the plan must be the same for employer and employee.

This type of tax deduction was worked on for more than ten years by Congressman Keogh before it was finally approved by the Congress. In effect, it gives to the self-employed person a measure of the same tax protection that is enjoyed by others who are employed by industry or business and who are provided with an employer's retirement program for which the employer may deduct his cost as a business expense.

Regulations setting forth the manner in which group or individual retirement programs under this law, have now been issued by the Internal Revenue Service. It is under these regulations that the C.M.A. plan has been drawn up. The late date of the issuance of official regulations has delayed the announcement of the C.M.A. Keogh plan until this late in the year.

Meanwhile, members have been urged to set aside their own funds without waiting for the regulations, so that they could be given tax benefits for the whole year and so that entry into a group fund would not require funds not readily available.

The C.M.A. committee of experts was carefully chosen from staff members of the Association and of its constituent societies and from independent authorities familiar with the needs and objectives of a broad retirement program. Members of the committee of experts included three attorneys, an insurance executive, an investment executive and an actuary.

When this group presented its report to the C.M.A. Council, the reaction was immediate. The plan as outlined was accepted and the committee was urged to proceed at once with its implementation.

The plan to be offered to C.M.A. members combines insurance annuities and investments. No life insurance is included; life insurance premiums are not tax-deductible under the law. Annuities, however, will be used as a source of income to the member after retirement.

In the field of investments, the committee unanimously approved the purchase of equities. For this purpose it selected two out of more than 300 available investment trusts. Selection was made on the basis of any investment trust meeting three criteria which were developed in advance. These included good management at a minimum charge, a policy of full investment of available funds and the direction of qualified investment counsel. The immediate records of production of income or market growth were not considered to be real guides, since nearly all investment trusts suffered setbacks in the 1961 market decline that make their records for 1962, for instance, look somewhat dismal.

The two funds selected by the committee will allow the participant to make a choice of which he desires. He will also be given his own choice of the percentage of his deposits he wants invested in equities and the percentage in annuities.

Safeguards will be written into the plan for the protection of employees who are covered and who, for reasons of death of employer or other causes, must change their employment after years of good and faithful service.

A California bank will be selected to act as trustee for the plan and bids have already been asked, on a competitive basis, from most of the larger banks in the state.

Costs to the participating members have been kept in mind throughout and those who choose to establish a Keogh-type retirement program, with its tax shelters, may be assured of the use of the maximum amount of their deposits for their own benefit when they are ready to start withdrawals.

Along with the green light on this program has come the announcement of a similar plan under auspices of the American Medical Association. The A.M.A. authorized development of a Keogh program at its meeting earlier this year and the plan has already been assembled and made available to all A.M.A. members.

It should be pointed out, in this connection, that it is not the intent of either the C.M.A. or the A.M.A. programs to compete with other plans or with individually-established programs. Rather, both the state and the national plans have been developed to provide a recognized and authorized program for the benefit of those members who elected to participate. It is quite likely that other medical organizations may produce similar programs, even as they have done in the field of disability insurance. The C.M.A. program gives every member the opportunity of entering into a well conceived, well thought-out program in the event he does not have other facilities available or if he prefers the terms of this plan to others which are available to him. This is not a field designed for competition for sales. The maximum deposits are limited by law, any program must warrant Internal Revenue Service approval, and the accumulation of funds in a program works against switching from one plan to another. The C.M.A. plan will be presented to the Internal Revenue Service for approval.

It is likely that as time goes on the Keogh Law will be expanded so that a physician may enlarge his own retirement program. The author of the law has already announced his intention to seek a broader approach to the problems of building a retirement fund by the self-employed individual. When and if such broadening occurs, the C.M.A. program will be in position to meet such amendments as may be made.

Meanwhile, it is anticipated that official offerings of the C.M.A. plan will be sent to all members, in a matter of a few weeks. This is important material and will warrant a thorough study by all members who are interested in building a retirement program with a tax-sheltered base. The special committee is to be commended for developing this program and the Council for approving and encouraging it.

The Editorial Board

ALTHOUGH RARELY CELEBRATED and probably not often thought of by readers, the editorial board of a medical journal is a large factor in determining the worth of the publication. Physicians are hard come by who have the peculiar combination of talent, knowledge, judgment and willingness necessary to do well the work they are called upon to do as members of an editorial board for a journal like CALIFORNIA MEDICINE. But come by them we did in the past; and come by them we have now again, under direction of a rule in the Bylaws limiting the term of members of our Board.

To meet this requirement a plan was drawn up for gradual replacement of members of the Editorial Board of CALIFORNIA MEDICINE who have served for long terms. Deciding which of those in this group would leave and who would stay for a while longer was done by lottery.

We must acknowledge an emotional wrench, as at the separation of old friends, when the lots were drawn. Yet it is heartening that the search for replacements turned up many physicians who obviously are well qualified to take over. The search was aided by the officers of Scientific Sections, by the Committee on California Medicine of the Scientific Board and by many others—not least by the members of the Board who were being supplanted. From the many good prospects, a list of nominees was drawn and their appointment was approved by the Council.

We speak both editorially and, we are sure, for all the members of the California Medical Association when we welcome the new members of the Board to a worthwhile yeomanry, renew our thanks to the members who are remaining on the Board, and address special gratitude to those who served long and well and now are relieved of duty.